

**DOCKET SECTION**

**BEFORE THE  
POSTAL RATE COMMISSION**

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POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

**ANSWERS OF UNITED PARCEL SERVICE WITNESS  
STEPHEN E. SELICK TO INTERROGATORIES OF  
UNITED STATES POSTAL SERVICE  
(USPS/UPS-T2-1 through 17)**

(February 10, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness Stephen E. Sellick to interrogatories USPS/UPS-T2-1 through 17 of the United States Postal Service.

Respectfully submitted,



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Of Counsel.

**USPS/UPS-T2-1.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 2 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 2.

- a. Please confirm that the sources for columns [22] - [28] of both sheets is "PHB Base Year Recalculation Model, CS 2 Sheet". If you do not confirm, please explain fully.
- b. Please confirm that the amounts shown for columns [22] - [28] are different for both sheets. If you do not confirm, please explain fully.
- c. Please confirm that the amounts on page 2 of ROLL\_0.XLS, CS 2 Sheet, columns [22] - [28] are intended to replicate the Postal Service base year amounts shown on page 1, columns [1] - [7]. If you do not confirm, please explain fully.
- d. Please confirm that on page 4 of ROLL\_0.XLS, CS 2 Sheet, columns [34] - [42], are intended to replicate the test year amounts appearing on page 1, columns [8] - [14]. If you do not confirm, please explain fully.
- e. Please explain fully the calculation and purpose of the line labeled "Factor" for columns [36] - [42] on page 4 of ROLL\_0.XLS, CS 2 Sheet.

**Response to USPS/UPS-T2-1.** (a) Not confirmed. The source for columns [22]-[27] of both sheets is PHB Base Year Recalculation Model, CS-2 Sheet, and the source for column [28] of both sheets is PHB Base Year Recalculation Model, PESSA Costs Sheet. To clarify the citation, the PHB Base Year Recalculation Models for RLL100.XLS and ROLL\_0.XLS are BSE100.XLS and BASEO.XLS, respectively.

- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) These factors are used to adjust for the effect on test year costs of weighting differences between the Postal Service and UPS calculations of base year

costs. Because the simplified roll-forward model used in my analysis adjusts base year costs on an individual subclass basis to arrive at test year costs, differences between the Postal Service and UPS base year costs in the weight of certain subclasses of mail within a cost component can result in different total test year costs, even when the two base year total costs are equal. To account for this, each subclass of each cost component was multiplied by a factor equal to the rate of the Postal Service test year total costs to UPS test year total costs for that cost component.

**USPS/UPS-T2-2.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 3 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 3 Sheet.

a. Please confirm that the sources for columns [46] - [60] of both sheets is "PHB Base Year Recalculation Model, CS 3 Sheet". If you do not confirm, please explain fully.

b. Please confirm that the amounts shown for columns [46] - [60] are different for both sheets. If you do not confirm, please explain fully.

c. Please confirm that the amounts on page 4 of ROLL\_0.XLS, CS 3 Sheet, columns [46] - [60] are intended to replicate the Postal Service base year amounts shown on page 1, columns [1] - [15]. If you do not confirm, please explain fully.

d. Please confirm that on page 6 of ROLL\_0.XLS, CS 3 Sheet, columns [76] - [90] are intended to replicate the test year amounts appearing on page 2, columns [16] - [30]. If you do not confirm, please explain fully.

e. Please explain fully the calculation and purpose of the line labeled "Factor" for columns [76] - [90] on page 6 of ROLL\_0.XLS, CS 3 Sheet.

**Response to USPS/UPS-T2-2.** (a) Not confirmed. The source for columns [46]-[59] of both sheets is PHB Base Year Recalculation Model, CS 3 Sheet, and the source for column [60] of both sheets is PHB Base Year Recalculation Model, PESSA Costs Sheet. To clarify the citation, the PHB Base Year Recalculation Models for RLL100.XLS and ROLL\_0.XLS are BSE100.XLS and BASEO.XLS, respectively.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) See my response to USPS/UPS-T2-1(e).

**USPS/UPS-T2-3.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 4 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 4 Sheet.

- a. Please confirm that the sources for column [4] of both sheets is “PHB Base Year Recalculation Model, CS 4 Sheet”. If you do not confirm, please explain fully.
- b. Please confirm that the amounts shown for column [4] are different for both sheets. If you do not confirm, please explain fully.
- c. Please confirm that the amounts on page 2 of ROLL\_0.XLS, CS 4 Sheet, column [4] are intended to replicate the Postal Service base year amounts shown on page 1, column [1]. If you do not confirm, please explain fully.
- d. Please confirm that on page 2 of ROLL\_0.XLS, CS 4 Sheet, columns [6] are intended to replicate the test year amounts appearing on page 1, column [2]. If you do not confirm, please explain fully.
- e. Please explain fully the calculation and purpose of the line labeled “Factor” for column [6] on page 2 of ROLL\_0.XLS, CS 4 Sheet.

**Response to USPS/UPS-T2-3.** (a) Confirmed. See my response to USPS/UPS-T2-1(a) for clarification of the citation.

- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) See my response to USPS/UPS-T2-1(e).

**USPS/UPS-T2-4.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 11 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 11 Sheet.

a. Please confirm that the source for column [13] of both sheets is "PHB Base Year Recalculation Model, CS 11 Sheet" and the sources for columns [14] - [16] of both sheets is "PHB Base Year Recalculation Model, PESSA Costs Sheet". If you do not confirm, please explain fully.

b. Please confirm that the amounts shown for columns [13] - [16] are different for both sheets. If you do not confirm, please explain fully.

c. Please confirm that the amounts on page 2 of ROLL\_0.XLS, CS 11 Sheet, columns [13] - [16] are intended to replicate the Postal Service base year amounts shown on page 1, columns [1] - [4]. If you do not confirm, please explain fully.

d. Please confirm that on page 3 of ROLL\_0.XLS, CS 11 Sheet, columns [21] - [24] are intended to replicate the test year amounts appearing on page 1, columns [5] - [8]. If you do not confirm, please explain fully.

e. Please explain fully the calculation and purpose of the line labeled "Factor" for columns [21] - [24] on page 3 of ROLL\_0.XLS, CS 11 Sheet.

**Response to USPS/UPS-T2-4.** (a) Confirmed. See my response to USPS/UPS-T2-1(a) for clarification of the citation.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) See my response to USPS/UPS-T2-1(e).

**USPS/UPS-T2-5.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 15 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 15 Sheet.

a. Please confirm that the sources for columns [7] - [8] of both sheets is "PHB Base Year Recalculation Model, PESSA Costs Sheet". If you do not confirm, please explain fully.

b. Please confirm that the amounts shown for columns [7] - [8] are different for both sheets. If you do not confirm, please explain fully.

c. Please confirm that the amounts on page 2 of ROLL\_0.XLS, CS 3 Sheet, columns [7] - [8] are intended to replicate the Postal Service base year amounts shown on page 1, columns [1] - [2]. If you do not confirm, please explain fully.

d. Please confirm that on page 2 of ROLL\_0.XLS, CS 3 Sheet, columns [11] - [12] are intended to replicate the test year amounts appearing on page 1, columns [3] - [4]. If you do not confirm, please explain fully.

e. Please explain fully the calculation and purpose of the line labeled "Factor" for columns [11] - [12] on page 2 of ROLL\_0.XLS, CS 3 Sheet.

**Response to USPS/UPS-T2-5.** (a) Confirmed. See my response to USPS/UPS-T2-1(a) for clarification of the citation.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) See my response to USPS/UPS-T2-1(e).

**USPS/UPS-T2-6.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 16 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 16 Sheet.

a. Please confirm that the sources for column [4] of both sheets is “PHB Base Year Recalculation Model, PESSA Costs Sheet”. If you do not confirm, please explain fully.

b. Please confirm that the amounts shown for column [4] are different for both sheets. If you do not confirm, please explain fully.

c. Please confirm that the amounts on page 2 of ROLL\_0.XLS, CS 16 Sheet, column [4] are intended to replicate the Postal Service base year amounts shown on page 1, columns [1]. If you do not confirm, please explain fully.

d. Please confirm that on page 2 of ROLL\_0.XLS, CS 16 Sheet, column [6] are intended to replicate the test year amounts appearing on page 1, column [2]. If you do not confirm, please explain fully.

e. Please explain fully the calculation and purpose of the line labeled “Factor” for column [6] on page 2 of ROLL\_0.XLS, CS 3 Sheet.

**Response to USPS/UPS-T2-6.** (a) Confirmed. See my response to USPS/UPS-T2-1(a) for clarification of the citation.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) See my response to USPS/UPS-T2-1(e).



**USPS/UPS-T2-7.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 18 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 18 Sheet.

a. Please confirm that the sources for columns [43] - [56] of both sheets is "PHB Base Year Recalculation Model, PESSA Costs Sheet". If you do not confirm, please explain fully.

b. Please confirm that the amounts shown for columns [43] - [56] are different for both sheets. If you do not confirm, please explain fully.

c. Please confirm that the amounts on page 4 of ROLL\_0.XLS, CS 18 Sheet, columns [43] - [56] are intended to replicate the Postal Service base year amounts shown on page 1, columns [1] - [14]. If you do not confirm, please explain fully.

d. Please confirm that on page 6 of ROLL\_0.XLS, CS 18 Sheet, columns [71] - [84] are intended to replicate the test year amounts appearing on page 2, columns [15] - [28]. If you do not confirm, please explain fully.

e. Please explain fully the calculation and purpose of the line labeled "Factor" for columns [71] - [84] on page 6 of ROLL\_0.XLS, CS 18 Sheet.

**Response to USPS/UPS-T2-7.** (a) Not confirmed. The source for columns [43]-[46] of both sheets is APHB Base Year Recalculation Model, CS 18 Sheet. The source for columns [47]-[56] of both sheets is APHB Base Year Recalculation Model, PESSA Costs Sheets. See my response to USPS/UPS-T2-1(a) for clarification of the citation.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) See my response to USPS/UPS-T2-1(e).

**USPS/UPS-T2-8.** Please refer to UPS-Sellick-WP-1-I-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 20 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 20 Sheet.

- a. Please confirm that the sources for columns [10] - [12] of both sheets is "PHB Base Year Recalculation Model, PESSA Costs Sheet". If you do not confirm, please explain fully.
- b. Please confirm that the amounts shown for columns [10] - [12] are different for both sheets. If you do not confirm, please explain fully.
- c. Please confirm that the amounts on page 2 of ROLL\_0.XLS, CS 20 Sheet, columns [10] - [12] are intended to replicate the Postal Service base year amounts shown on page 1, columns [1] - [3]. If you do not confirm, please explain fully.
- d. Please confirm that on page 3 of ROLL\_0.XLS, CS 20 Sheet, columns [16] - [18] are intended to replicate the test year amounts appearing on page 1, columns [4] - [6]. If you do not confirm, please explain fully.
- e. Please explain fully the calculation and purpose of the line labeled "Factor" for columns [16] - [18] on page 3 of ROLL\_0.XLS, CS 20 Sheet

**Response to USPS/UPS-T2-8.** (a) Confirmed. See my response to USPS/UPS-T2-1(a) for clarification of the citation.

- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) See my response to USPS/UPS-T2-1(e).

**USPS/UPS-T2-9.** Please refer to UPS-Sellick-WP-1-i-C2 and UPS-Sellick-WP-D2. In the first workpaper, please refer to RLL100.XLS, CS 18 Sheet and in the second workpaper, please refer to ROLL\_0.XLS, CS 18 Sheet.

a. Please confirm that the sources listed for columns [29] - [42] on page 3 of each workpaper should read:

[29]	=[15] / [1]
[30]	=[16] / [2]
[31]	=[17] / [3]
[32]	=[18] / [4]
[33]	=[19] / [5]
[34]	=[20] / [6]
[35]	=[21] / [7]
[36]	=[22] / [8]
[37]	=[23] / [9]
[38]	=[24] / [10]
[39]	=[25] / [11]
[40]	=[26] / [12]
[41]	=[27] / [13]
[42]	=[28] / [14].

If you do not confirm, please explain fully.

b. Please refer to columns [34], [39], [41] and [42]. These columns show negative PESSA costs. Please fully explain the reason for negative PESSA costs. Should the impact of these negative PESSA costs be absorbed by volume variable costs of other classes and subclasses of mail or by "Other" costs? Please explain fully.

c. Please provide a complete explanation why in column [41], the subclasses of Fourth Class Mail show a 0% change from base year to test year while Total Fourth shows a 200% change from base year to test year.

**Response to USPS/UPS-T2-9.** (a) Confirmed. However, an additional note should be made indicating that if the denominator of the ratio equals zero, then the ratio equals zero.

(b) The negative PESSA costs indicated in columns [34], [39], [41], and [42] are derived from the negative PESSA costs in columns [20], [25], [27], and [28], respectively, which are in turn taken directly from USPS-T-15, WP-G, Table C. I did not consider whether or not witness Patelunas treated such negative PESSA costs correctly. Therefore, I am not in a position to comment on the cause of such negative costs or the impact they should have on other subclasses.

(c) As indicated in part (a) of this response, in instances where the Postal Service base year cost is zero, the spreadsheet enters a value of zero for the ratio of test year cost to base year cost. That is why, in column [41], the test year subclasses of Fourth Class Mail are 0% of those for the base year while test year Total Fourth Class is 200% of base year Total Fourth Class. Two of the subclasses of Fourth Class Mail go from zero in the base year to one in the test year, while one subclass goes from one in the base year to zero in the test year. As a result, all subclasses show test year costs as 0% of base year costs, even though there is a net increase of 100% in Total Fourth Class Mail costs from base year to test year. The overall effect of this is minimal.

**USPS/UPS-T2-10.** Please refer to UPS-Sellick-WP-1-I-A2,BSE100.XLS, CS 3 Sheet, page 2 of 3.

a. The source for footnote [4] is WS 3.2.1, column 6, but the amounts shown in column [4] are not found on WS 3.2.1. Please provide the source of the amounts that appear in column [4].

b. Please refer to the following statement from footnote [8]: "distributed on summation of mail processing other distribution keys." Please provide a complete explanation of the "other distribution keys" used in the summation. Include in your explanation component numbers, component titles, all calculations and documentation to source materials.

**Response to USPS/UPS-T2-10.** (a) Footnote [4] should read: "WS 3.3.2, Column 6."

(b) Footnote [8] should read: "Total from WS 3.0.4 Sheet, distributed on component 466." Please see Adjusted Distribution Keys sheet for explanation of calculation and source of component 466.

**USPS/UPS-T2-11.** Please refer to Table 4 on page 17 of your testimony.

a. Please confirm that the Postal Service, in moving from base year to test year costs, applies a mail volume effect to volume variable costs. If you do not confirm, please explain in detail.

b. Please confirm that, in moving from base year to test year costs, if the amount of total base year volume variable costs increases, then the test year mail volume effect will be greater. If you do not confirm, please explain in detail.

c. Please confirm that assuming 100 percent variability of mail processing labor costs will increase the total amount of base year volume variable costs above that shown in the Postal Service's filing. If you do not confirm, please explain in detail.

d. Please explain in detail why your TY 1998 recommended approach total costs are only \$3.7 million higher than those shown in the Postal Service's filing.

**Response to USPS/UPS-T2-11.** (a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) The simplified roll-forward model I used does not account for an incremental mail volume effect on volume variable costs. The \$3.7 million difference between my recommended base year costs and the Postal Service's base year costs is the result of cumulative rounding effects rather than an effort to account for mail volume effects. As far as I can determine, omitting an incremental mail volume effect resulted in only a minimal difference in my calculation.

**USPS/UPS-T2-12.** On pages 12-13 of your testimony, you acknowledge that in earlier cases, the Commission (and the Postal Service) treated some portion of mail processing costs as fixed, yet in other places in your testimony (e.g. page 12, lines 10-11), you refer to the previous practice of "attributing 100 percent of mail processing labor costs."

a. Please clarify your understanding of the old methodology.

Specifically, when you refer to "100 percent attribution," is this a shorthand reference to the previous practice of treating most costs as fully variable, and only a limited portion as fixed?

b. Are the analyses which produced the results reported in the Tables 2-6 in your testimony predicated on an assumed "100 percent attribution," or are they predicated on the same set of assumptions as the previous methodology (which actually attributed less than 100 percent of mail processing labor costs)? Please clarify.

**Response to USPS/UPS-T2-12.** (a) My references to "100 percent attribution" are shorthand references to the previous practice of treating most costs as fully variable and a limited portion as fixed.

(b) The analyses which produced the results reported in Tables 2-6 in my testimony are predicated on the same set of assumptions as the previous methodology which actually attributed less than 100 percent of mail processing labor costs.

**USPS/UPS-T2-13.** Please provide any statistical, econometric, or empirical analysis performed by either you or anyone else that validates the assumed 100 percent volume variability you use in calculating TY 1998 mail processing costs by shape for Priority Mail.

**Response to USPS/UPS-T2-13.** Please refer to the testimony of UPS witness Kevin Neels (UPS-T-1).



**USPS/UPS-T2-14.** Please explain your rationale for assuming that the Priority Mail Processing Cost Differences by Shape analysis isolates the cost differences due solely to shape, and for assuming that the results of the analysis are not driven by other factors such as zone-mix, presort, or dropshipping. In your explanation, please indicate all of the factors that you believe drive the cost difference.

**Response to USPS/UPS-T2-14.** I am not aware of any reason that the shape mix of Priority Mail would vary for the factors cited. Note that presorting accounts for a trivial amount of Priority Mail; in fact, witness Sharkey (USPS-T-33) is proposing to eliminate Priority Mail presorting in this case. Other factors which could drive the cost difference include differential ease or difficulty of mail processing due to shape.

**USPS/UPS-T2-15.** Please refer to UPS-SELLICK-WP-1-II-B1 to -B7.

a. Please confirm that your programs are based upon the SAS programs in OCA-LR-1. If you do not confirm, please explain fully.

b. If you confirm part (a), please list all changes you made to the SAS programs in OCA-LR-1. Please also describe the purpose of each change.

**Response to USPS/UPS-T2-15.** (a) Confirmed.

(b) The changes made and the purposes of each are generally noted in my workpapers. In addition, changes were made to SAS LIBNAME statements to account for subdirectory data location and miscellaneous changes to report titles. See, for example, UPS-SELLICK-WP-1-II-B1 through B6. Specific changes are noted below. All references, unless otherwise note, are to UPS-Sellick-WP-1-II-B.

**MOD1DIR.SAS:**

Line11 - create data set EXEMPT to hold observations with activity codes associated with fixed mail processing costs.

Lines 28-33 - select observations with activity codes associated with fixed mail processing costs.

**MOD4DIST.SAS**

Lines 221-231 and 239 - prepare exempt tallies for re-introduction to data processing.

Line 615 - weight report by COSTS instead of VCOSTS.

**BMC1.SAS**

Line 139 - create data set EXEMPT to hold observations with activity codes associated with fixed mail processing costs.

Lines 145-149 - select observations with activity codes associated with fixed mail processing costs.

**BMC4.SAS**

Lines 89-93 and 99 - prepare exempt tallies for re-introduction to data processing.

Line 274- weight report by COSTS instead of VCOSTS.

#### **NONMODS12.SAS**

Line 40 - create data set EXEMPT to hold observations with activity codes associated with fixed mail processing costs.

Lines 45-48 - select observations with activity codes associated with fixed mail processing costs.

#### **NONMODS4.SAS**

Lines 165-165 and 171 - prepare exempt tallies for re-introduction to data processing.

Lines 440 - weight report by COSTS instead of VCOSTS.

#### **PREMITIOT.SAS**

Lines 71-77 - switch definition of VCOSTS to ignore Postal Service volume variability.

Line 180 - switch definition of VCOSTS to ignore Postal Service volume variability.

#### **MODSHAPE.SAS** (UPS-Sellick-WP-III-C)

Lines 1-12 - as noted.

Lines 149-150 - include Priority Mail in class definitions.

Lines 165-180 - include Priority Mail in report printouts.

**USPS/UPS-T2-16.** Please refer to UPS-SELLICK-WP-1-II-B1 to -B7. Do your programs account for the institutional portion of Registry and Special Delivery costs? If your answer is affirmative, please provide reference(s) to the relevant sections of code. If your answer is negative, please explain.

**Response to USPS/UPS-T2-16.** My programs do not separately account for the institutional portion of Registry and Special Delivery costs. This was an oversight on my part (which I believe affects only Registry and Special Delivery) that I anticipate correcting in the response to POIR #11.

**USPS/UPS-T2-17.** Please refer to your testimony at pages 12-13.

a. Is it your testimony that the existing methodology for distributing “administrative” costs is more accurate than witness Degen’s proposed methodology? Please explain fully.

b. If some “administrative” costs are related to a specific mail processing operation, would it be reasonable to distribute such costs in proportion to the subclasses of mail processed in that operation? Please explain fully.

**Response to USPS/UPS-T2-17.** (a) I have not testified that the existing methodology for distributing administrative costs is more accurate than witness Degen’s proposed methodology. I have noted that witness Degen’s methodology is different from the existing methodology.

(b) It may be reasonable to distribute the costs you describe in proportion to the subclasses of mail processed in that operation. I have not examined that question in detail.

**DECLARATION**

I, Stephen E. Sellick, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Stephen E. Sellick

Dated: February 9, 1998

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.

  
\_\_\_\_\_  
John E. McKeever

Dated: February 10, 1998  
Philadelphia, PA